

## BUSINESS ENTITIES VIDEO SERIES, Script Six

### **CORPORATION**

The most complex business structure is the **corporation**.

- A corporation is a separate legal entity that is comprised of three groups of people: shareholders, directors and officers.
- The shareholders elect a board of directors that has responsibility for management and control of the corporation.
- Because the corporation is a separate legal entity, the corporation generally is responsible for the debts and obligations of the business.
- In most cases, shareholders are insulated from claims against the corporation.
- The corporation, as a separate legal entity, is also a separate taxable entity.
- Registration with the Office of the Secretary of State is required.
- It may be necessary for corporate securities to be registered with the Office of the Securities Commissioner.

A **domestic corporation** is one incorporated in Kansas. It must file Articles of Incorporation with the Office of the Secretary of State. This application requires a \$90.00 paper filing fee or \$85.00 electronic filing fee.

A **foreign corporation** is a business incorporated in another country, state or jurisdiction other than Kansas. In order to conduct business in Kansas, a foreign corporation must file an Application for Authority to Engage in Business in Kansas. This application carries a \$115.00 paper filing fee, and electronic filing is not available.

A **professional corporation** is comprised of a single professional or a group of professionals who file both Articles of Incorporation and a certificate from their specific professional regulatory board with the Secretary of State. Shareholders of a professional corporation are limited to members of that specific profession. This application requires a \$90.00 paper filing fee, and electronic filing is not available.

Corporations have certain **advantages**.

- No shareholder, officer or director may be held liable for debts of the corporation unless corporate law was breached.
- Interests in the business may be readily sold by the transfer and sale of shares.
- The ready transferability of shares in the corporation facilitates estate planning.
- If desired, a qualifying corporation may be taxed as a Subchapter S under the Internal Revenue Code.
- Shares of the company may be sold to investors in order to obtain capital financing.
- Corporations, to a much greater extent than sole proprietorships and partnerships, may take advantage of pension plans, medical payment plans, group life and accident plans and other benefits available under the Internal Revenue Code.

- The corporate structure provides for a great deal of flexibility with respect to tax planning. For instance, income between the corporation and its shareholders may be adjusted, within reasonable limits, to obtain the most favorable tax treatment for each individual.
- The entity exists forever, so long as corporate regulations are met. There is no need to cease operations if an owner or manager dies.

Corporations have certain **disadvantages**.

- Cost of organization, legal fees and state filing fees can be expensive depending on the complexity and size of the business.
- Control is vested in a board of directors, elected by shareholders rather than control vested in the individual owners. Thus, a shareholder who owns less than 50 percent of the stock may have a less than effective voice in how the business is run.
- The possibility of double taxation exists.
- Income from the business is taxed at the corporate level and again when the individual shareholders receive profits in the form of dividends.
- The corporation must qualify in each state in which it chooses to do business.
- Unlike sole proprietorships and partnerships, individual shareholders may not deduct corporation losses unless the corporation has elected to be taxed as a Subchapter S Corporation.
- Annual Reports must be made to the Office of the Secretary of State.

This is the sixth of eight business entity videos created by the Office of the Kansas Secretary of State. The first is an introduction to the series, and the remaining seven videos each target a specific type of business organization. Each video provides a brief description of the business entity type, its registration requirements, and the advantages and disadvantages of its structure.

I'm Kansas Secretary of State Kris Kobach, wishing you success in your new business venture. For further assistance, please visit [www.sos.ks.gov](http://www.sos.ks.gov) or call (785) 296-4564.